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TO RUEHC/SECSTATE WASHDC 7137
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RUEHMN/AMEMBASSY MONTEVIDEO 2369
RUEHBU/AMEMBASSY BUENOS AIRES 2778
RUEHSG/AMEMBASSY SANTIAGO 2075
RUEHLP/AMEMBASSY LA PAZ 3380
RUEHPE/AMEMBASSY LIMA 1153
RUEHCV/AMEMBASSY CARACAS 0507
RUEHBO/AMEMBASSY BOGOTA 1560
RUEHRG/AMCONSUL RECIFE 3636
RUEHRI/AMCONSUL RIO DE JANEIRO 8158
RUEHAC/AMEMBASSY ASUNCION 3034
RUEATRS/DEPT OF TREASURY WASHDC
RUEHFR/AMEMBASSY PARIS 0288

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SIPDIS

SENSITIVE
SIPDIS

DEPT FOR WHA/BSC, WHA/EPSC, AND EB/OFD/OMA
STATE PASS TO USTR FOR SCRININ
STATE PASS EXIMBANK
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE
NSC FOR FEARS
USDOC FOR 4332/ITA/MAC/OLAC
USDOC FOR 3134/USFCS/OIO

TREASURY FOR JHOEK

AID/W FOR LAC/AA
PARIS FOR ECON - TOM WHITE

E.O. 12958: N/A

TAGS: [EFIN](#) [ETRD](#) [BEXP](#) [ECON](#) [BR](#)

SUBJECT: VENEZUELAN PAYMENTS LATE FOR BRAZILIAN EXPORTERS

SENSITIVE BUT UNCLASSIFIED; PLEASE PROTECT ACCORDINGLY

Summary

11. (SBU) The Venezuelan Office that regulates the payment of foreign currencies (Commission for the Administration of Official Exchange - CADIVI) is taking an average of six months or more to pay Brazilian companies for their products, adding up to a total estimated at USD 100 million, according to representatives of the Sao Paulo Federation of Industry (FIESP). Although this represents only 3 percent of Brazilian exports to Venezuela, the impact on individual businesses is significant, especially for smaller companies, and the situation is giving pause to all enterprises selling to Venezuela who wish to be paid in a timely manner. According to the Sao Paulo Federation of Industries (FIESP), representatives of 75 companies met in their offices in late May to express concern over CADIVI's cumbersome processing guidelines, multitude of forms, and priority system in approving payments. In some cases, companies have been waiting up to three years to receive payments. With the drop in the exchange rate of the U.S. dollar in Brazil, waiting an extra 3-6 months for payment can signify an additional loss of income. FIESP has responded by sending two working groups to Venezuela to express concern and address the problem, and plans to send a more formal mission in the near future. Industrial sectors most affected by this payment delay are aluminum, electrical materials, vehicles and tractors, and machinery and mechanical instruments. End Summary.

12. (SBU) During a meeting on a related matter, representatives of

the Sao Paulo State Federation of Industries' (FIESP) Department of International Relations and Foreign Commerce raised with Econoff ongoing problems in dealing with CADIVI. An article on the subject appeared that same day on the front page of Valor Economico, one of Brazil's major economic journals. Pedro Pedrossian Neto, the Foreign Trade Economic Analysis Supervisor handling the matter for FIESP, cited the intensive bureaucratic process required for Brazilian companies to receive payment for exports to Venezuela (18 distinct procedures), and the two controls required for foreign exchange payments that CADIVI must authorize (acquisition and liquidation of exchange funds). In order to trade with Venezuela, Brazilian companies must register with CADIVI, a process requiring the originals and copies of nine separate documents. (Comment: Brazilian companies are all too familiar with the document-heavy regulations and bureaucracy of doing business in Brazil, so to bring complaints against another country's governmental agency implies that the difficulties they are facing with Venezuela must be serious. End Comment.)

13. (SBU) Adding to the payment delay is the priority system of payments determined by the Venezuelan government: 1) goods and services designated as most urgently needed; 2) foods, raw materials and products for health; and 3) raw materials for industry. This places industry last in line for payment processing. Carlos Cavalcanti, FIESP's Deputy Director General for International Affairs and Foreign Trade, is of the opinion that "the motive for the delay is not a lack of funds, because Venezuela has the money," but rather is a tactic of BRV President Chavez to discredit Venezuelan private sector entities in preparation for a future attempt to nationalize more industries. Cavalcanti stated that this is also the opinion of the Venezuelan importers.

14. (SBU) In the meeting of the 75 businesses present at FIESP to
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complain about the situation, the sectors whose representatives cited the biggest problems were aluminum, electrical materials, vehicles and tractors, machinery and mechanical instruments, representing 36 percent, 26 percent, 11 percent, and 5.5 percent respectively of the total volume of export payments owed. Total delayed payments owed to Brazilian companies amount to about USD 23 million, with some companies having waited up to three years. However, according to Cavalcanti, the real figure of payments owed for Brazilian exports to Venezuela is probably closer to USD 100 million, as many of the companies do not wish to reveal their true figures. Pedrossian Neto mentioned this was the case with Coca-Cola, whose representative attended the meeting but probably did not disclose the full amount of payment the company is owed.

15. (U) The aluminum sector cited 26 outstanding transactions to the tune of USD 8.4 million, with 80 percent of them having already waited 3-6 months. In the area of electrical materials - for the most part cell phones, the principal item on the export list for Brazilian products to Venezuela in 2006 - the delayed payments total USD 5.9 million, with 56 percent of the companies waiting six months to one year. Companies exporting vehicles and tractors are owed USD 2.6 million corresponding to 110 transactions.

16. (SBU) Another crucial factor affecting Brazilian companies is the dollar loss associated with the wait time. With the falling dollar exchange rate, a payment made even 3 months later than normal can mean a significant loss in income. Pedrossian Neto provided one company's real life experience to highlight the seriousness: A company exported USD 1.96 million worth of goods to Venezuela and expected payment on 25 October 2006. At that time, a dollar was worth 2.14 Reals, which meant an expected income of 4.2 million Reals. If the company were to receive the payment as of today, after a wait of over seven months with the dollar trading at less than 2 Reals, the payment would be approximately 3.8 million Reals, representing an income loss of more than 421 million Reals. FIESP also calculates a "lost opportunity cost" for this transaction: If the company had received payment at the time of product delivery, and invested this amount at a rate of 7.66 percent for this same period, the investment would have yielded 320,000 Reals. This "lost opportunity cost," in addition to the actual lost income for the payment delay, would amount to a total loss of 741,000 Reals.

¶7. (SBU) According to Pedrossian Neto, FIESP has sent two separate working groups to Caracas to discuss the problem with CADIVI, one in March and the other in early June. FIESP has also solicited the assistance of Banco do Brasil in Venezuela, since the bank has offices and contacts there and is more familiar with the process of converting funds. A more formal mission will be sent in the near future if the problem is not resolved. Also, FIESP plans to request assistance from the Brazilian government to address this problem with Venezuela. According to Cavalcanti, however, this will not be an easy mission and may not yield results. He cited FIESP's attempts last year to request GoB assistance with non-tariff barriers that were hindering Brazilian commerce, among them the slowness of CADIVI. All these barriers were duly reported to the WTO, with the exception of those related to Venezuela.

¶8. (SBU) Comment: Even though the delays in payments for exports to Venezuela encountered by Brazilian companies represent only three percent of total trade between the two countries (USD 3.6 billion in 2006), CADIVI's performances presents an institutional risk that could affect continued bilateral trade. Brazilian companies are accustomed to bureaucratic procedures, but delayed

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payment of several months to years, compounded by the loss of income caused by the falling dollar rate, has created a serious disadvantage for Brazilian exporters and constitutes a severe disincentive for companies that may be considering entering the market. While some of the problem may be attributed to bureaucracy, Venezuelan importers stated to FIESP that this is simply a maneuver of Chavez to discredit Venezuelan private industry in order to nationalize those industries in the future. End Comment.

¶11. (U) This cable was coordinated with Embassy Brasilia.

McMullen